REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE CABINET FOR HEALTH SERVICES

Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky

For the Year Ended June 30, 1999

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EXECUTIVE SUMMARY

REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE CABINET FOR HEALTH SERVICES

Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky
For the Year Ended June 30, 1999

BACKGROUND:

The Federal Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Commonwealth of Kentucky. To comply with these requirements we audited internal controls and compliance at both the central and agency level. This summary is on our audit of one organizational unit of the Commonwealth, the Cabinet for Health Services.

EXPENDITURES:

The Cabinet for Health Services expended federal awards totaling $2,139,598,365 in the following manner:

- $2,131,254,398 in cash from 10 federal grantors
- $8,343,967 in non-cash grants (i.e., vaccines)

FINDINGS:

Financial Statement Accounts - *Unqualified opinion*

Compliance:

No instances of noncompliance

Internal Control Over Financial Reporting:

Four (4) reportable conditions, none of which are material weaknesses
Two (2) other matters

Federal Awards and Schedule of Expenditures of Federal Awards - *Qualified opinion*

Compliance:

No instances of noncompliance.

Internal Control Over Compliance:

Two (2) reportable conditions, none of which are material weaknesses.
Four (4) other matters.

Schedule of Expenditures of Federal Awards - *Qualified opinion*

GENERAL TOPICS OF REPORTABLE CONDITIONS:

Inadequate accounting procedures
Inaccurate, incomplete transaction documentation
Noncompliance with state laws and regulations

EXECUTIVE SUMMARY

REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE CABINET FOR HEALTH SERVICES
(CONTINUED)

GENERAL TOPICS OF REPORTABLE CONDITIONS:

Financial Statement Reportable Conditions:
Contingent Liabilities
County Health Bank Account
Medical Assistance Program

Financial Statement Other Matters:
Payroll and Personnel
Medical Assistance Program

Federal Programs with Reportable Conditions:
Maternal and Child Health Services
Immunization Grants
Medical Assistance Program

Federal Programs with Other Matter Comments:
Medical Assistance Program

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INTRODUCTION

CABINET FOR HEALTH SERVICES
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999

Introduction

The Auditor of Public Accounts, acting as principal auditor in conjunction with various certified public accounting firms, annually performs a single statewide audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Public Law 104-156, referred to as the Single Audit Act Amendments of 1996, is effective for fiscal years beginning after June 30, 1996.

Using This Report

The agency level report of the Cabinet for Health Services, an organization unit of the Commonwealth of Kentucky as defined by KRS 12.010, contains the auditor's reports on compliance and internal control over financial reporting, on compliance and internal control over compliance with requirements applicable to the major federal programs, and on the Schedule of Expenditures of Federal Awards. The report on the Cabinet for Health Services audit which was done in conjunction with the single statewide audit of the Commonwealth of Kentucky also contains the Schedule of Expenditures of Federal Awards for the year ended June 30, 1999. The Schedule of Findings and Questioned Costs (including Summary of Auditor's Results, Financial Statement Findings and Questioned Costs, and Federal Award Findings and Questioned Costs), and the Summary Schedule of Prior Audit Findings is also presented herein. The corrective action plans for current year findings are reported in the Schedule of Findings and Questioned Costs.

Schedule of Expenditures of Federal Awards

This report contains the Schedules of Expenditures of Federal Awards, which is organized by Federal Grantor (CFDA number). The Notes to the Schedule of Expenditures of Federal Awards follows the Schedule to provide more detailed information on certain aspects of the expenditures, such as the amount given to subrecipients.

The Auditor of Public Accounts requested the Cabinet for Health Services to prepare worksheets of federal financial assistance, both cash and noncash. The source of these worksheets included STARS, agency accounting systems, agency manual records, etc. The Cabinet for Health Services was also asked to reconcile the worksheets to STARS and to federal grantor reports. These worksheets were compiled into the accompanying Schedule of Expenditures of Federal Awards.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three parts, the Summary of Auditor's Results, Financial Statement Findings and Questioned Costs, and Federal Award Findings and Questioned Costs. The Summary of Auditor's Results summarizes the audit opinions on the Financial Statements, Schedule of Expenditures of Federal Awards, Internal Control over Financial Reporting, Internal Control over Compliance for Federal Awards, and Compliance for Federal Awards. Each audit finding number and the audit findings classification (as reportable,

CABINET FOR HEALTH SERVICES
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

Schedule of Findings and Questioned Costs (Continued)

material, or other matter) is provided as part of the audit opinion summary. Major programs audited and Type B programs audited as major are listed on the Summary of Auditor's results also. The second part is the Financial Statement Findings and Questioned Costs. This part lists all of the audit findings related to the financial statements. The third part, the Federal Award Findings and Questioned Costs, lists all findings related to federal awards. Generally, the state agency, CFDA number and program, federal agency, pass-through agency, and the compliance area the finding relates to are presented. In both parts two and three, reportable conditions are presented first, then material weaknesses/noncompliances, and then other matters.

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 1998 (as well as any previous finding which have not been resolved) are reported in the Cabinet for Health Services' Summary Schedule of Prior Audit Findings for the fiscal year ended June 30, 1999. If the APA determines the agency's Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding, a new audit finding is issued and reported in the Schedule of Findings and Questioned Costs.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable, material, or an other matter. The findings of each classification (reportable, material, and other matter) are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid. If a finding has been reclassified, from material to reportable for instance, the finding will appear in the material finding section of the summary schedule and the comment will indicate the reclassification.

Audit Approach

Our audit was conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of the statewide single audit for the year ended June 30, 1999, included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;

- An audit of supplementary Schedule of Expenditures of Federal Awards (excluding state universities, as discussed below) in accordance with generally accepted government auditing standards;

CABINET FOR HEALTH SERVICES
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FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

Audit Approach (Continued)

- An audit of the internal control applicable to the Cabinet for Health Services to the extent necessary to consider and test the internal accounting and administrative control systems as required by generally accepted government auditing standards, the Single Audit Act Amendments of 1996, and the provisions of OMB Circular A-133; and

- A selection and testing of transactions and records relating to each major federal financial assistance program to obtain reasonable assurance that the Cabinet for Health Services administers its major federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth's general-purpose financial statements.

The Auditor of Public Accounts' office conducted the audit of internal controls, focusing on the following objectives:

- Considering the internal control at the Cabinet for Health Services in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth of Kentucky

- Determining if the Cabinet for Health Services has internal controls to provide reasonable assurance that it is managing the federal assistance programs in compliance with applicable laws and regulations.

CABINET FOR HEALTH SERVICES
INTRODUCTION
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(CONTINUED)

List of Abbreviations/Acronyms Used In This Report

AFR	Annual Financial Report
APA	Auditor of Public Accounts
CAFR	Comprehensive Annual Financial Report
CDP	Custom Data Processing
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulation
CHCBA	County Health Central Bank Account
CHS	Cabinet for Health Services
CPAS	Claims Processing Assessment System
C&T	Certification and Transmittal
DPH	Department of Public Health
DSH	Disproportionate Share Payments
DMHMRS	Department for Mental Health and Mental Retardation Services
DMS	Cabinet for Health Services, Department for Medicaid Services
FAC	Finance and Administration Cabinet
FY	Fiscal Year
HCFA	Health Care Financing Administration
ICF/MR/DD	Intermediate Care Facilities/Mental Retardation/
JCAH	Joint Commission Accredited Hospital
KAR	Kentucky Administrative Regulation
KHCP	Kentucky Health Care Program
KHS	Kentucky Health Select
KRS	Kentucky Revised Statute
KY	Kentucky
LHD	Local Health Departments
L&R	Licensing and Regulation
MAP	Medical Assistance Program
MARS	Management Administrative Reporting System
MCHS	Maternal Child Health Services
MMIS	Medicaid Management Information System
NF	Nursing Facility
OIG	Office of Inspector General
OMB	Office of Management and Budget
PO	Purchase Order
POS	Point of Sale
RFP	Request For Proposal
SSWAK	Statewide Single Audit of Kentucky
STARS	Statewide Accounting And Reporting System
SFY	State Fiscal Year
US	United States
USC	United States Code

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CABINET FOR HEALTH SERVICES
SCHEDULE OF EXPENDITURES FOR FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1999

STATE AGENCY FEDERAL GRANTOR CFDA # / PROGRAM TITLE		PASS THROUGH GRANTOR'S #	EXPENDITURES CASH	 NONCASH
U.S. Department of Agriculture **Direct Programs:**				
10.557	Special Supplemental Nutrition Program For Women, Infants, And Children (Note 2) (Note 4)	N/A	$ 83,076,793	
10.570	Nutrition Program for the Elderly (Commodities) (Note 4)	N/A	484,378	
Passed Through From Cabinet for Families and Children:				
10.561	State Administrative Matching Grants for Food Stamp Program	N/A	225,056	
U.S. Department of Justice **Direct Program:**				
16.579	Byrne Formula Grant Program	N/A	44,058	
U.S. Department of Labor **Direct Program:**				
17.235	Senior Community Services Employment Program (Note 4)	N/A	808,737	
U.S. Environmental Protection Agency **Direct Programs:**				
66.032	State Indoor Radon Grants (Note 4)	N/A	379,510	
66.606	Surveys, Studies, Investigations and Special Purpose Grants	N/A	135,000	
66.707	TSCA Title IV State Lead Grants - Certification Of Lead-Based Paint Professionals	N/A	366,415	
U.S. Department of Energy **Passed Through Cabinet for Families and Children:**				
81.042	Weatherization Assistance for Low-Income Persons	N/A	8,082	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CABINET FOR HEALTH SERVICES
SCHEDULE OF EXPENDITURES FOR FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA # /	PROGRAM TITLE	PASS THROUGH GRANTOR'S #	EXPENDITURES CASH	NONCASH
U.S. Department of Energy (Continued)				
Passed Through Natural Resources and Environmental Protection Cabinet:				
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring And Oversight (Note 4)	DE-FG05-910R21997	$ 191,247	
U.S. Federal Emergency Management Agency				
Direct Program:				
83.539	Crisis Counseling (Note 4)	N/A	31,106	
Passed Through From Department of Military Affairs:				
83.549	Chemical Stockpile for Emergency Preparedness Program (Note 4)	MOA13941	135,948	
U.S. Department of Education				
Direct Programs:				
84.181	Special Education - Grants For Infants And Families With Disabilities (Note 4)	N/A	4,048,469	
84.186	Safe And Drug-Free Schools and Communities - State Grants (Note 4)	N/A	1,644,133	
U.S. Department of Health and Human Services				
Direct Programs:				
93.041	Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation (Note 4)	N/A	25,015	
93.042	Special Programs for the Aging - Title VII, Chapter 2 - Long-term Care Ombudsman Services for Older Individuals	N/A	3,044	
93.043	Special Programs for the Aging - Title III, Part F - Disease Prevention and Health Promotion Services (Note 4)	N/A	75,013	
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers (Note 4)	N/A	1,342,861	

CABINET FOR HEALTH SERVICES
SCHEDULE OF EXPENDITURES FOR FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA # /	PROGRAM TITLE	PASS THROUGH GRANTOR'S #	EXPENDITURES CASH	NONCASH
U.S. Department of Health and Human Services (Continued)				
Direct Programs: (Continued)				
93.045	Special Programs for the Aging - Title III, Part C - Nutrition Services (Note 4)	N/A	$ 2,685,461	
93.046	Special Programs for the Aging - Title III, Part D - In-Home Services for Frail Older Individuals (Note 4)	N/A	30,586	
93.048	Special Programs for the Aging - Title VI, Training, Research, and Discretionary Projects and Programs (Note 4)	N/A	57,020	
93.110	Maternal and Child Health Federal Consolidated Programs	N/A	318,247	
93.116	Project Grants And Cooperative Agreements For Tuberculosis Control Programs (Note 4)(Note 5)	N/A	1,087,583	73,391
93.119	Grants For Technical Assistance Activities Related To The Block Grant For Community Mental Health Services - Technical Assistance Centers for Evaluation (Note 4)	NA	45,000	
93.130	Primary Care Services - Resource Coordination And Development Primary Care Offices (Note 4)	N/A	101,970	
93.136	Injury Prevention And Control Research And State And Community Based Programs (Note 4)	N/A	123,731	
93.150	Projects For Assistance In Transition From Homelessness (PATH) (Note 4)	N/A	319,513	
93.194	Community Prevention Coalitions (Partnership) Demonstration Grant (Note 4)	N/A	1,076,036	
93.217	Family Planning - Services (Note 4)	N/A	3,971,457	
93.230	Consolidated Knowledge Development and Application Program (Note 4)	N/A	420,800	
93.235	Abstinence Education	N/A	1,026,857	
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement (Note 4)	N/A	8,978	
93.262	Occupational Safety And Health Research Grants (Note 4)	N/A	145,344	
93.268	Immunization Grants (Note 4)(Note 5)	N/A	3,321,746	7,880,213
93.283	Centers For Disease Control And Prevention - Investigations And Technical Assistance (Note 4)	N/A	713,557	
93.399	Cancer Control	N/A	46,600	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CABINET FOR HEALTH SERVICES
SCHEDULE OF EXPENDITURES FOR FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA # /	PROGRAM TITLE	PASS THROUGH GRANTOR'S #	EXPENDITURES CASH	NONCASH
U.S. Department of Health and Human Services (Continued)				
Direct Programs (Continued):				
93.630	Developmental Disabilities Basic Support And Advocacy Grants (Note 4)	N/A	$ 953,671	
93.658	Foster Care - Title IV - E	N/A	1,713	
93.777	State Survey And Certification Of Health Care Providers And Suppliers	N/A	3,450,907	
93.778	Medical Assistance Program (Note 2)	N/A	1,973,830,325	
93.779	Health Care Financing Research, Demonstration and Evaluations (Note 4)	N/A	157,106	
93.917	HIV Care Formula Grants	N/A	2,975,305	
93.919	Cooperative Agreements For State-Based Comprehensive Breast And Cervical Cancer Early Detection Programs (Note 4)(Note 5)	N/A	1,436,281	155,180
93.931	Demonstration Grants To States For Community Scholarships (Note 4)	N/A	13,650	
93.940	HIV Prevention Activities - Health Department Based (Note 5)	N/A	1,500,854	64,877
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	N/A	112,395	
93.945	State Cardiovascular Health Program (Note 4)	N/A	89,382	
93.958	Block Grants For Community Mental Health Services (Note 4)	N/A	4,067,067	
93.959	Block Grants For Prevention And Treatment Of Substance Abuse (Note 2) (Note 4)	N/A	18,521,709	
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants (Note 5)	N/A	454,453	170,306
93.982	Mental Health Disaster Assistance and Emergency Mental Health (Note 4)	N/A	2,909	
93.988	Cooperative Agreements For State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	N/A	277,878	
93.991	Preventive Health And Health Services Block Grant (Note 4)	N/A	3,218,050	
93.994	Maternal And Child Health Services Block Grant To The States (Note 2)(Note 4)	N/A	8,399,951	

CABINET FOR HEALTH SERVICES
SCHEDULE OF EXPENDITURES FOR FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA # /	PROGRAM TITLE	PASS THROUGH GRANTOR'S #	EXPENDITURES CASH	NONCASH
U.S. Department of Health and Human Services (Continued)				
Passed Through Cabinet for Families and Children:				
93.042	Special Programs for the Aging - Title VII, Chapter 2 - Long-term Care Ombudsman Services for Older Individuals	N/A	$ 2,255	
93.558	Temporary Assistance for Needy Families	N/A	99,387	
93.563	Child Support Enforcement	N/A	6,070	
93.568	Low Income Energy Assistance	N/A	6,763	
93.569	Community Services Block Grant	N/A	8,135	
93.575	Child Care and Development Block Grant	N/A	515,429	
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	N/A	120,760	
93.667	Social Services Block Grant	N/A	1,589,567	
N/A	Clinical Laboratory Improvement Act	N/A	180,566	
N/A	National Institute of Health	N/A	5,260	
U.S. Corporation for National and Community Service				
Direct Program:				
94.011	Foster Grandparent Program (Note 4)	N/A	484,252	
U.S. Social Security Administration				
Direct Program:				
96.001	Social Security Disability Insurance	N/A	13	
Total Cabinet for Health Services			$ 2,131,254,398	$ 8,343,967

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CABINET FOR HEALTH SERVICES
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Purpose of the Schedule – OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations,*" requires that a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance.

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in that Circular, federal financial assistance " . . . means assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals . . .." It includes awards received directly from federal agencies, or indirectly through other units of state and local governments. Accordingly, the accompanying schedule includes both cash and noncash federal financial assistance programs. Those programs that have not been assigned a catalog number, or for which the catalog number was not available, have been shown either at the bottom of the relevant federal grantor subheading or under the "Other Federal Assistance" subheading.

Reporting Entity – The Cabinet for Health Services is an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010 and is included in the Commonwealth of Kentucky entity for financial reporting purposes. The accompanying Schedule of Expenditure of Federal Awards of the Cabinet for Health Services presents only that portion of the federal financial assistance of the Commonwealth of Kentucky that is attributable to the transactions of the Cabinet for Health Services.

Basis of Accounting – The cash expenditures on the accompanying Schedule of Expenditures of Federal Awards are presented primarily on the basis of cash disbursements, as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, " . . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose." However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth's general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the Schedule of Expenditures of Federal Awards may not be directly traceable to the general-purpose financial statements in all cases.

CABINET FOR HEALTH SERVICES
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

The noncash expenditures presented on this schedule represent the noncash assistance expended by the Cabinet for Health Services during the period July 1, 1998 through June 30, 1999, using the method or basis of valuation as described in the notes to the Schedule of Expenditures of Federal Awards for each program. These noncash assistance programs are not reported in the Commonwealth of Kentucky's general-purpose financial statements for the year ended June 30, 1999.

Inter-agency Activity – Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Cabinet for Health Services' Schedule of Expenditures of Federal Awards:

(a) Federal moneys may be received by one state agency (primary state agency – recipient) and passed through to another state agency (secondary state agency – subrecipient) where the moneys are expended. This inter-agency transfer activity is reported in the Cabinet for Health Service's Schedule of Expenditures of Federal Awards as follows:

- Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.

- Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

(b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the Cabinet for Health Services' schedules only by the purchasing agency as an expenditure.

Note 2 - Type A Programs

Under the provision of the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal programs must be defined as Type A or Type B programs. For the Statewide Single Audit of the Commonwealth of Kentucky, a Type A program must have expended over $12 million. All other programs are Type B programs.

CABINET FOR HEALTH SERVICES
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

Note 2 - Type A Programs (Continued)

Clusters are a group of closely related programs sharing common compliance requirements. A cluster of programs must be considered as one program for determining Type A programs. In relation to noncash federal financial assistance programs, this threshold is generally applied to the amount of assistance expended during the year as presented on the noncash portion of the Schedule of Expenditures of Federal Awards, plus any cash expenditures under the same CFDA designation.

The Cabinet for Health Services had three cash major programs that met the Type A major program definition and one cash/noncash high-risk Type B program that was audited as a major program for the year ended June 30, 1999. The Cabinet identified one cluster, Medicaid, which included more than one federal program, among the Type A programs. These Type A programs were:

CFDA #	Federal Program Name	Expenditure
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	$ 83,076,793
93.778	Medical Assistance Program	1,973,830,325
93.959	Block Grants for Prevention and Treatment Of Substance Abuse	18,521,709
93.994	Maternal and Child Health Services Block Grant To The States	8,399,951

Note 3 - Activity Occurring in Noncash Programs With Inventoriable Items

The Cabinet for Health Services is a pass-through entity for local health departments and other providers. The Cabinet receives, stores, and distributes vaccine, needle, and syringe inventory items related to the Immunization Grants (CFDA # 93.268) program.

No ending inventory balance could be presented because the agency did not maintain a perpetual inventory system and an accurate physical count was not taken at year-end. In addition, the agency did not account for the disbursement of vaccines. Because of these deficiencies in agency records, the required note for the Schedule of Expenditures for Federal Awards could not be presented. For further discussion see Finding 98-CHS-7 in the Summary Schedule of Prior Audit Findings.

The basis of valuation for the noncash vaccine expenditures, as shown on the Schedule of Expenditures for Federal Awards, comes from the National Immunization Program Center for Disease Control's Orders Approved Report.

CABINET FOR HEALTH SERVICES
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

Note 4 - Subrecipient Activity

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients.

CFDA #	Federal Program Name	Amount Provided To Subrecipients
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	$ 982,838
10.570	Nutrition Program for the Elderly(Commodities)	484,378
17.235	Senior Community Service Employment Program	802,182
66.032	State Indoor Radon Grants	43,575
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring And Oversight	111,526
83.539	Crisis Counseling	31,106
83.549	Chemical Stockpile Emergency Preparedness Program	64,735
84.181	Special Education – Grants for Infants and Families with Disabilities	551,510
84.186	Safe and Drug-Free Schools and Communities - State Grants	1,608,889
93.041	Special Programs for the Aging – Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation	25,015
93.043	Special Programs for the Aging- Title III, Part F – Disease Prevention and Health Promotion Services	92,241
93.044	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers.	1,527,393
93.045	Special Programs for the Aging -Title III, Part C - Nutrition Services	1,983,626
93.046	Special Programs for the Aging -Title III Part D – In – Home Services for Frail Older Individuals	80,243
93.048	Special Programs for the Aging -Title IV, Training, Research, and Discretionary Projects and Programs.	57,020
93.116	Project Grants and Cooperative Agreements For Tuberculosis Control Programs	34,510
93.119	Grants for Technical Assistance Activities Related To the Block Grant for Community Mental Health Services - Technical Assistance Centers for Evaluation	45,000

CABINET FOR HEALTH SERVICES
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

Note 4 - Subrecipient Activity (Continued)

CFDA #	Federal Program Name	Amount Provided To Subrecipients
93.130	Primary Care Services - Resource Coordination And Development Primary Care Offices	$ 80,000
93.136	Injury Prevention And Control Research And State And Community Based Programs	123,731
93.150	Projects for Assistance In Transition From Homelessness (PATH)	359,269
93.194	Community Prevention Coalitions (Partnership) Demonstration Grant	77,885
93.217	Family Planning-Services	23,000
93.230	Consolidated Knowledge Development and Application Program	374,510
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	8,350
93.262	Occupational Safety and Health Research Grants	103,729
93.268	Immunization Grants	461,445
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	128,585
93.630	Developmental Disabilities Basic Support and Advocacy Grants	50,000
93.779	Health Care Financing Research, Demonstration and Evaluations	146,424
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	234,137
93.931	Demonstration Grants To States for Community Scholarships	55,000
93.945	State Cardiovascular Health Program	450,000
93.958	Block Grants for Community Mental Health Services	4,063,829
93.959	Block Grants for Prevention and Treatment of Substance Abuse	16,708,243
93.982	Mental Health Disaster Assistance and Emergency Mental Health	2,909
93.991	Preventive Health and Health Services Block Grant	692,969
93.994	Maternal and Child Health Services Block Grant to the States	12,500
94.011	Foster Grandparent Program	37,879
	Total Amounts Sent To Subrecipients	$ 32,720,181

CABINET FOR HEALTH SERVICES
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

Note 5 – Noncash Expenditure Programs

The Cabinet for Health Services had five noncash programs for the year ended June 30, 1999. These noncash programs and a description of the method/basis of valuation follow:

CFDA #	Federal Expenditure Name	Expenditure	Method/Basis of Valuation
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	$ 73,391	Per authorized award for personnel costs and travel.
93.268	Immunization Grants	7,880,213	Per authorized award for personnel and vaccine costs.
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	155,180	Per authorized personnel and other costs and travel.
93.940	HIV Prevention Activities – Health Department Based	64,877	Per authorized personnel and other costs
93.977	Preventive Health Services – Sexually Transmitted Diseases Control Grants	170,306	Per authorized personnel costs and travel.

Note 6 – Zero Expenditure Programs

These programs had no expenditures during the year ended June 30, 1999. They included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

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REPORTS ON COMPLIANCE AND INTERNAL CONTROL

Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
Jimmy Helton, Secretary
Cabinet for Health Services

Report On Compliance And On Internal Control Over
Financial Reporting Based On An Audit Of The General-Purpose
Financial Statements Performed In Accordance With *Government Auditing Standards*

As part of the audit of the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1999, we have audited receipts, expenditures, payroll accounts receivable, accounts payable, preaudit authority, purchasing authority, and judgements and contingencies of the Cabinet for Health Services, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, and have issued our report thereon dated December 30, 1999. (1) We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth of Kentucky's financial statements are free of material misstatement, we performed tests of Cabinet for Health Services' compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cabinet for Health Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Cabinet for Health Services' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 99-CHS-1, 99-CHS-2, 99-CHS-3, and 99-CHS-4.

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Honorable Paul E. Patton, Governor
Jimmy Helton, Secretary
Cabinet for Health Services
Report On Compliance And On Internal Control Over
Financial Reporting Based On An Audit Of The General-Purpose
Financial Statements Performed In Accordance With *Government Auditing Standards*
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting that we have reported in the accompanying schedule of findings and questioned costs as items 99-CHS-5, and 99-CHS-6.

This report is intended solely for the information of management and applicable federal awarding agencies and pass-through entities. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork complete-
December 30, 1999

Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
Jimmy Helton, Secretary
Cabinet for Health Services

Report On Compliance With Requirements Applicable
To Each Major Program And On Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Cabinet for Health Services with the types of compliance requirements described in the *US. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30,1999. The Cabinet for Health Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Cabinet for Health Services' management. Our responsibility is to express an opinion on the Cabinet for Health Services' compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cabinet for Health Services' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Cabinet for Health Services' compliance with those requirements.

In our opinion, based on our audit, the Cabinet for Health Services complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999.

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To the People of Kentucky
Honorable Paul E. Patton, Governor
Jimmy Helton, Secretary
Cabinet for Health Services
Report On Compliance With Requirements Applicable To Each Major Program And
On Internal Control Over Compliance In Accordance With OMB Circular A-133
And On The Schedule Of Expenditures Of Federal Awards
(Continued)

Internal Control Over Compliance

The management of the Cabinet for Health Services is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Cabinet for Health Services' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Cabinet for Health Services' ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as items 99-CHS-7, and 99-CHS-8.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are not material weaknesses.

We also noted certain other matters involving the internal control over compliance that we have reported in the accompanying Schedule of Findings and Questioned Costs as items 99-CHS-9, 99-CHS-10, 99-CHS-11, and 99-CHS-12.

Schedule of Expenditures of Federal Awards

Our office has audited the general-purpose financial statements of Commonwealth of Kentucky as of and for the year ended June 30, 1999, and has issued our report thereon dated May 15, 2000. Our audit was performed for the purpose of forming an opinion on the Commonwealth of Kentucky's general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards of the Cabinet for Health Services, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the Commonwealth of Kentucky's general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Jimmy Helton, Secretary
Cabinet for Health Services
Report On Compliance With Requirements Applicable To Each Major Program And
On Internal Control Over Compliance In Accordance With OMB Circular A-133
And On The Schedule Of Expenditures Of Federal Awards
(Continued)

As described in Note 1, the Schedule of Expenditures of Federal Awards of the Cabinet for Health Services is intended to present only that portion of the expenditures of federal awards of the Commonwealth of Kentucky that is attributable to the transactions of the Cabinet for Health Services.

The general-purpose financial statements of the Commonwealth of Kentucky are prepared on the accrual/modified accrual basis of accounting. However, as described in Note 1, the Schedule of Expenditures of Federal Awards of the Cabinet for Health Services is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the Schedule of Expenditures of Federal Awards is not intended to present the expenditures of federal awards in conformity with generally accepted accounting principles.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the Schedule of Expenditures of Federal Awards of the Cabinet for Health Services is fairly stated, in all material respects, in relation to the Commonwealth of Kentucky's general-purpose financial statements taken as a whole.

This report is intended for the information of management and applicable federal awarding agencies. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork complete –
April 30, 2000

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999

SECTION 1 – SUMMARY OF AUDITOR'S RESULTS

Financial Statement Accounts

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth of Kentucky's general-purpose financial statements as of and for the year ended June 30, 1999. The Cabinet for Health Services was included in our audit procedures of the general-purpose financial statements.

Internal Control Over Financial Reporting: Our consideration of the Cabinet for Health Services' internal control over financial reporting disclosed four reportable conditions. We believe that none of the reportable conditions noted are material weaknesses.

Our consideration of the Cabinet for Health Services' internal control over financial reporting also disclosed two other matter conditions.

Compliance: In relation to the audit of the Cabinet for Health Services' accounts that we audited and the Schedule of Expenditures of Federal Awards, the results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards

Federal Awards and Schedule of Expenditures of Federal Awards

Internal Control Over Major Programs: Our consideration of the Cabinet for Health Services internal control over compliance disclosed two reportable conditions. We believe that none of the reportable conditions noted are material weaknesses.

Additionally our audit disclosed four comments that we consider "other matter" comments that relate to internal control over major programs, that we reported to CHS management in the accompanying Schedule of Findings and Questioned Costs of this report.

Compliance for Major Programs: We issued an unqualified opinion on the Cabinet for Health Services' compliance with the requirements applicable to each of its major federal programs.

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on the Cabinet for Health Services' Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with generally accepted accounting principles. The opinion was issued in relation to the Commonwealth of Kentucky's general-purpose financial statements taken as a whole.

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 1 – SUMMARY OF AUDITOR'S RESULTS (Continued)

Identification of Major Programs

	CFDA #	Federal Program or Cluster	Amount
	10.557	Special Supplemental Nutrition Program For Women, Infants, and Children	83,076,793
*	93.778	Medicaid Assistance Program	1,973,830,325
	93.959	Block Grants For Prevention And Treatment Of Substance Abuse	18,521,709
#	93.994	Maternal And Child Health Services Block Grant To The States	14,157,274

Identified clusters include:
*CFDA # 93.775 and 93.777
Includes $5,757,323 from the Commission For Children With Special Health Care Needs

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B Programs was $12,000,000

Auditee Qualify as Low-Risk Auditee

The Cabinet for Health Services did not qualify as a low-risk auditee.

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Control And/Or Compliance:

FINDING 99-CHS-1: The Year-End Cash Balance For The County Health Central Bank Account Should Be Reported

During our review of Cabinet for Health Services year-end closing package, we noted that the Department for Public Health did not report the account balance of the County Health Central Bank Account (CHCBA) on the Annual Financial Report Cash Worksheet (AFR 10) form. The balance in the CHCBA at June 30, 1999 was $8,225,754 and included general fund, agency revenue fund, and federal fund money.

In addition to the cash balance in the CHCBA, the Resource Management Branch did not report the interest receivable of $1,168 earned from the repurchase agreement's overnight sweep of the account on June 30, 1999.

Not reporting these balances at year-end understates the assets of cash and accounts receivable on the financial statements.

CHS should report the cash balance and interest receivable from this checking account to FAC's reporting team so that it can be included on the Commonwealth's financial statements. An adjustment was made during the audit to record the cash balance in the financial statements.

Recommendation

We recommend that both the cash balance and the interest receivable at June 30, 1999 be reported on an AFR 10, closing package form. A copy of the form should be sent to the FAC reporting team and a copy to the Auditor's office. These amounts should be reported on the ageny's closing package in future years.

Management's Response and Corrective Action Plan

Cabinet for Health Services has worked with the APA and Controllers office to resolve this issue. The cash and receivable are being included in the CAFR report.

Response provided by: Miles Murphy, Assistant Director, Office of Program Support

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
CONTINUED

SECTION 2 - FINANCIAL STATEMENT FINDINGS (Continued)

Reportable Conditions Relating to Internal Controls And/Or Compliance: (Continued)

FINDING 99-CHS-2: The Office Of The General Counsel Should Improve Controls Over Contingent Liabilities

The Office of the General Counsel completed and issued the 1999 Contingent Liabilities Status Report on September 30, 1999. The report contained errors in the department compilations. The department's collective ending balances for contingent liabilities of $1,701,812 were overstated by $1,101,812. This was primarily due to the inclusion of prior year paid cases.

In addition, cases that had a risk for payment of less than 75% were included in the closing package for contingent liabilities. FAC instructions require only those cases that are 75% or above to be included in the closing package.

The overstatement of contingent liabilities increases the amount of financial risk that the state apparently incurred, as of June 30, 1999, but in reality does not owe. An adjustment was made to report the correct amount of contingent liabilities.

The Office of the General Counsel was provided with a set of FAC instructions for the completion of the closing package.

Recommendation

We recommend the Office of the General Counsel prepare the contingent liabilities status report from a schedule of current cases and not follow what was included on prior years reports. We also recommend the status report contain only those cases that have been assessed as having a 75% or greater chance of being paid by the state within one year.

Management's Response and Corrective Action Plan

We quite agree with the recommendation for improvement. The overstatements in the past were attributable to "bundle" of cases handled by counsel/staff no longer with the Cabinet.

Response provided by: Ed Overbey, General Counsel

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 2 - FINANCIAL STATEMENT FINDINGS (Continued)

Reportable Conditions Relating to Internal Control And/Or Compliance: (Continued)

FINDING 99-CHS-3: The Department For Medicaid Services Should Improve Control Procedures Over The Medical Assistance Program

Unisys (the corporation under contract with CHS to provide Medicaid Claims) adjudicates claims for the Medicaid Expenditures. During our audit period, the Department For Medicaid Services (DMS) performed a "voluntary" **C**laims **P**rocessing and **A**ssessment **S**ystem **(CPAS)** to ensure proper claims processing. DMS's sample selection method used a starting number with fixed intervals to select the samples within each of the categories (e.g. "Hospital Services," "Long Term Care Services," etc.). For "Hospital Services" and "Individual Practices, Clinics, Services & Supplies," there was not a fixed interval. This was due to a lack of claims within certain time periods to have a fixed interval. The total claims selected for testing was far below the final number of the claim universe. This selection method resulted in approximately 15% of the population having no opportunity of being selected. Additionally, UNISYS selected the sample of claims to test. DMS did not perform a reconciliation of the population to ensure that the sample was pulled from the entire population of adjudicated claims.

Although CPAS is no longer required by the Health Care Financing Administration, DMS has elected to use CPAS as a control system. Therefore, management is responsible for insuring that the controls are in place and operating effectively. This finding was noted in prior years as an "Other Matter." We have upgraded this finding to a "reportable condition" for FY 1999.

The claims from which the CPAS samples are selected are entered by "Recipient Numbered Order" when read into the system. Accordingly, with the limited interval sample selection method used, the higher numbered recipients do not have an equal chance of being selected. Approximately 15% of the claims had no chance of being selected or reviewed.

Because Unisys pulls the sample and no reconciliation is performed by DMS, the sample could be manipulated to omit or withhold problem areas within the system from DMS's knowledge. This could adversely affect the results of the CPAS testing.

Good internal controls dictate that information received from outside sources be verified for completeness and accuracy. In addition, Part II of the State Medicaid Manual, Chapter 6 states, "the sample selection must be performed on a complete sampling frame. A sampling frame for the prescribed sample universe is all Medicaid line items authorized for payment."

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 2 - FINANCIAL STATEMENT FINDINGS (Continued)

Reportable Conditions Relating to Internal Control And/Or Compliance: (Continued)

FINDING 99-CHS-3: The Department For Medicaid Services Should Improve Control Procedures Over The Medical Assistance Program (Continued)

Recommendation

We recommend DMS revise their sample selection method for CPAS testing to include the complete sampling frame. We also recommend DMS establish reconciliation procedures to ensure that the sample selected is representative of the entire population/universe. Alternately, DMS might consider pulling the sample from the universe of actual claims paid through STARS.

Management's Response and Corrective Action Plan

- *Effective July 1, 1999 the stratum will be changed monthly to ensure that the sample selected is representative of the entire population/universe.*
- *Control totals are in the process of being implemented to ensure all claims are included in the universe.*
- *STARS does not carry claim information, therefore DMS cannot be pulled from this database.*

Response provided by: Zane Peyton, Director, Division of Financial Management

FINDING 99-CHS-4: The Department For Medicaid Services Should Strengthen Controls Over The Kentucky Health Care Program

During our review of internal controls over Medicaid Expenditures, we examined 40 disproportionate share payments (DSH) made under the Kentucky Health Care Program (KHCP). In doing so, we obtained purchase orders and supporting information documenting payments made during FY 99 and supporting documentation.

Our testing indicated the following:

- Seven payments could not be tested because payment calculation was inconsistent with other DSH payment calculations. For example, Inpatient/Outpatient days were dollar amounts instead of number of days, the conversion factor was not stated, and the payment rate was a percent instead of a dollar amount;

- Therefore, a comparison could not be made between the spreadsheet and the conversion factor per KHCP payment computation spreadsheet.

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 2 - FINANCIAL STATEMENT FINDINGS (Continued)

Reportable Conditions Relating to Internal Control And/Or Compliance: (Continued)

FINDING 99-CHS-4: The Department For Medicaid Services Should Strengthen Controls Over The Kentucky Health Care Program (Continued)

- There was an exception noted for all payments because of lack of supporting documentation (i.e. conversion factor spreadsheet). This document could not be obtained from the agency;

- There were seven exceptions noted where the per diem rates did not agree to the Kentucky Medical Assistance Program Inpatient Rate Notice from DMS.

Without supporting documentation and consistency, the audit trail for the DSH payments is diminished. Therefore, the data used in calculating the payment cannot be verified. In addition, if the per diem rates used for the payment calculation do not agree to the Rate Notice from DMS, incorrect DSH payments could be made.

Good internal controls dictate that supporting documentation be maintained and verified for completeness and accuracy. In order to comply with sound accounting practices, procedures must be consistent.

Furthermore, the lack of supporting documentation part of this finding is a repeat from the FY 98 Agency Level Report, where the finding was classified as an "other matter." The corrective actions described by the agency in response to prior year finding have not been fully implemented. After considering all of the issues above, we have decided this finding is a "reportable condition" for FY 99.

Recommendation

We recommend that:

- Payment calculation procedures should be consistent. Therefore, all information used to calculate the payment should be shown on the reconciliation page.

- The agency should maintain documentation to support disproportionate share payments made under the Kentucky Health Care Program.

- The agency should take extra precautions when computing disproportionate share payments to ensure that the correct rates are used.

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 2 - FINANCIAL STATEMENT FINDINGS (Continued)

Reportable Conditions Relating To Internal Control And/or Compliance: (Continued)

FINDING 99-CHS-4: The Department For Medicaid Services Should Strengthen Controls Over The Kentucky Health Care Program (Continued)

Management's Response and Corrective Action Plan

- *Seven payments could not be tested because payment calculations was inconsistent with other DSH payment calculation. For example, Inpatient/Outpatient days were dollar amounts instead of number of days, the conversion factor was not stated, and the payment rate was a percent instead of a dollar amount.*

- *As explained during audit testing, payments to hospitals differ, depending on each hospital's number of licensed acute care beds. Payments to hospitals with 200 or more licensed acute care beds are based on their per diem rate. Payments to hospitals with fewer than 200 licensed acute care beds are based on their cost-to-charge ratio (a percentage) applied to all charges. The conversion factor is incorporated in the KHCP payment computation spreadsheet and is based on an ad hoc report obtained from our fiscal agent.*

- *There was an exception noted for all payments because of lack of supporting documentation (i.e., conversion factor spreadsheet). This document could not be obtained from the agency, therefore a comparison could not be made between the spreadsheet and the conversion factor per KHCP payment computation spreadsheet.*

  A conversion factor spreadsheet does not exist. As noted above, the conversion factor is based on an ad hoc report obtained form DMS' fiscal agent and provided on a diskette by another Medicaid division. The conversion factor was then input into the KHCP payment computation spreadsheet. For SFY 2001and thereafter, the Division of Financial Systems will have control over the entire process, from obtaining the ad hoc report to posting the conversion fact to the KHCP payment computation spreadsheet. A conversion factor spreadsheet will not be created. However, the ad hoc report will be available for review by the auditors.

- *There were seven exceptions noted where the per diem rates did not agree to the Kentucky Medical Assistance Program Inpatient Rate Notice from DMS.*

DSH payments are made based on the rate in effect for the period DSH payments are made, which is based on the most recent audited cost report. The Kentucky Medical Assistance Program Inpatient Rate Notice from DMS can be distributed after the period in which the DSH payments have been made, depending on when the audited cost reports are received. The per diem rates paid did not agree with the rate notice because the rate notice was generated after the payments were made. Because DSH is a linseed pool of money, retroactive adjustments are not normally made when the rate changes. The new rate is used to determine future DSH payments.
Response provided by: Zane Peyton, Director, Division of Financial Management

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 2 - FINANCIAL STATEMENT FINDINGS (Continued)

Other Matter Comments Relating To Internal Control And/Or Compliance:

FINDING 99-CHS-5: The Cabinet for Health Services Should Improve Controls Over Providers

The auditor examined 25 provider files while testing Medicaid Expenditures to verify that eligible Medicaid providers were properly rendering services. Files were tested to verify that the proper forms were signed and filed, a provider license was filed, and the provider was eligible to participate in Medicaid.

Based on the auditor's testing, the following exceptions were noted:

- Four files did not contain a MAP 380 or MAP 246 when applicable.
- One file did not contain a MAP 347 when applicable.
- One file did not contain a MAP 343B.
- Two files did not contain a current License.
- One file did not contain a C&T when applicable.
- One file could not be located by DMS personnel.
- Three files indicated that the provider has joined the Managed Care Program. Current MAP forms, Licenses, and C&T forms were not in the file.

The auditor made further inquires for the weakness noted relating to the Provider who joined the Managed Care Program. Through discussion with DMS personnel, it was noted that updated information is sent to Kentucky Health Select (KHS) and then a copy is supposed to be sent to DMS for their files. After obtaining this information, the auditor contacted Kentucky Health Select. According to KHS personnel and the contract between DMS and KHS, it is still the responsibility of Medicaid to enroll and certify providers and keep files current. There has been some confusion and debate with both DMS and KHS concerning this particular area. According to KHS personnel, there is supposed to be a meeting to discuss the responsibilities of both DMS and KHS and to clear up the confusion.

If files or the MMIS are not updated, payments for services could be made to ineligible providers. In addition, if files are not kept current, personnel may have difficulty ascertaining the status of the provider in the Medicaid Program.

907 KAR 1:672 Section 2 (4) a states, "All applicants for participation shall complete and sign a Provider Agreement, Disclosure of Ownership and Control Interest Statement, Certification with regard to Lobbying Activity, pursuant to 31 USC 1352, provider proof of a valid Professional License Registration, or Certificate which allows the applicant to provide the services for which the applicant contracts, and provide any additional clarifying information requested for processing of the application."

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 2 - FINANCIAL STATEMENT FINDINGS (Continued)

Other Matter Comments Relating To Internal Control And/Or Compliance: (Continued)

FINDING 99-CHS-5: The Cabinet for Health Services Should Improve Controls Over Providers (Continued)

The RFP between DMS and KHS states, "In order to prevent duplication of effort by the regional partnerships, the Department will continue to enroll and certify hospitals, nursing facilities, home health agencies, independent laboratories, preventive health care providers, and hospices. The Medicaid provider file will be available for review by the regional partnerships so that they can ascertain the status of a provider with the Medicaid Program and the provider number assigned by the Kentucky Medicaid Program. The Department shall continue to enroll providers whose services are not included in the managed care plan."

Strong internal controls require that a method be established and maintained which monitors providers on a continuous basis and utilizes only those providers which have satisfied the requirements to be eligible as Medicaid participants.

Recommendation

We recommend that all provider files be reviewed and updated for the required documents. Failure to do so could allow ineligible providers to be reimbursed. We also recommend that files be updated to be in compliance with the contract between DMS and KHS or the contract needs to be amended.

Management's Response and Corrective Action Plan

- *Four files did not include a MAP 380 or a MAP 246 when applicable.*
  DMS is behind in filing these types of documents. A temporary employee is being hired to address this issue. (Note: One of the files is for a pharmacy provider that bills via Point of sale (POS) and MAP forms are not required.)

- *One file did not contain a MAP 347 when applicable.*
  The provider has been contacted to request the immediate submission of the form.

- *One file did not contain a MAP 343B.*
  DMS will contact the provider to obtain a current form. It should be noted that the MAP 343A was the required form at the time this provider enrolled in the Medicaid program.

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 2 - FINANCIAL STATEMENT FINDINGS (Continued)

Other Matter Comments Relating To Internal Control And/Or Compliance: (Continued)

FINDING 99-CHS-5: The Cabinet for Health Services Should Improve Controls Over Providers (Continued)

Management's Response and Corrective Action Plan (Continued)

- *Two files did not contain a current license.*
  A tape from the Kentucky Board of Medical Board is reconciled annually with the KY MMIS for license renewals. The MMIS automatically end-dates any provider whose license has not been renewed. Since both providers are active on the MMIS, DMS staff are reviewing the backlog of filing to determine if a current license is on file.

- *One file did not contain a C & T when applicable.*
  The C&T was found when the auditor and DMS staff re-checked the file.

- *One file could not be located by DMS personnel.*
  File has been located and is available for review.

- *Three files indicated the provider has joined the Managed Care program.*
  Current MAP forms, Licenses, and C&T forms were not in the files.

  DMS is currently working to resolve issues related to the enrollment of providers in managed care programs.

  Beginning December 1, 1999 the Unisys Corporation will take over the provider enrollment process. All enrollment processes will be computerized to increase accountability including computer-images of all enrollment documents.

  Response provided by: Zane Peyton, Director, Division of Financial Management

FINDING 99-CHS-6: The Cabinet For Health Services Should Improve Controls Over Personnel and Payroll Functions

During our testing of the payroll and personnel system at the Cabinet for Health Services, we noted the following weaknesses in internal control:

- Three time sheets were not signed by the employee in the Department of Mental Health and Mental Retardation;

- Three supervisors that had signed timesheets did not have a signature card on file. This error occurred in last year's audit and is a repeat comment.

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 2 - FINANCIAL STATEMENT FINDINGS (Continued)

Other Matter Comments Relating To Internal Control And/Or Compliance: (Continued)

FINDING 99-CHS-6: The Cabinet For Health Services Should Improve Controls Over Personnel and Payroll Functions (Continued)

Effective internal control dictates that the employee signs all timesheets and the employees' authorized supervisor who signs the timesheet have a valid signature card on file.

Recommendation

We recommend that all employees have signed timesheets and that all supervisors authorized to sign timesheets have signature cards on file.

Management's Response and Corrective Action Plan

In March 1999, the Department for Mental Health and Mental Retardation Services put into place a procedure for securing the employee signatures on timesheets. The procedure outlines that original timesheets, whether signed or unsigned, are to be submitted to the DMHMRS payroll officers within specified dates. If an unsigned timesheet is submitted, a copy of the original timesheet with the employee's signature is to be submitted within ten (10) days of the end of the pay period. If a signed timesheet is not received within the ten-day period, a deficiency notice is forwarded to the Division/Facility.

Two of the three timesheets noted were for pay periods during 1998, which was prior to the effective date of the procedure. The third timesheet was during the pay period of June 1-15, 1999, during the transition of payroll officers within the Department and it has come to my attention that no audit took place of timesheets during this month. As there is now a system in place within this office to audit timesheets after each pay period, this should no longer be an issue.

These timesheets were during the period of orientation of a new payroll officer who was unfamiliar with the process of notify the timekeepers of the need for signature cards when new supervisors are appointed. This situation would have normally been corrected during the quarterly signature card audit. As there is now a system in place within this office to audit signature cards and notify department heads, supervisors, and timekeepers of the need for completion of a signature card for all newly appointed supervisors; this should no longer be an issue.

Response provided by: Julie W. Benedict, Manager, Human Resources Development

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And Compliance:

FINDING 99-CHS-7: The Department For Medicaid Services Should Improve The Controls Over Drug Rebate Billings, Collections, And Recording

State Agency: Cabinet for Health Services
Federal Program: CFDA: 93.778-Medical Assistance Program
Federal Agency: U.S. Department of Health and Human Services
Pass-Through Entity: Not Applicable
Compliance Area: Special Tests and Provisions
Amount of Questioned Costs: None

During our testing of internal controls over the Drug Rebate Program, we noted several weaknesses in various areas of the program. First, we tested 40 Rebate Billing Statements for accuracy, timeliness, and for proper recording. We tested these billings from the billing cycle through the receipt cycle. Weaknesses were noted in five areas. Three of these areas were findings in our SSWAK 97 audit report as 97-CHS-44 and are listed on the Summary Schedule of Prior Audit Findings. The other two exceptions are new findings and are noted below:

- Six amounts posted as received from the labeler did not equal the amount of the check.

- No initials documenting who performed the Drug Rebate reconciliation was noted. In addition, there was no review by an appropriate supervisor of the reconciliation after they were performed.

The lack of an effective internal control structure increases the risk that laws and regulations of the Drug Rebate Program will not be followed, leading to the possibility of sanctions by the federal government, including possible disallowance of expenditures. Furthermore, since a portion of the rebate collected would be used to reimburse the Commonwealth for its match, failure to collect all rebates due results in a loss of state revenue.

The Drug Rebate Program was established within the Medicaid Assistance Program (MAP) by federal law to recover from drug manufacturers a fee per drug unit dispensed by providers of Medicaid services. It is DMS's responsibility to establish internal controls to properly record, collect, and report all amounts owed to and received by MAP.

Recommendation

We recommend that proper controls be implemented by the fiscal agent or by DMS to ensure that the following objectives are met:

- All check amounts posted should equal the labeler quarter detail screens (manufacturer's account).

- Drug Rebate reconciliation are performed and initialed by the preparer. In addition, the reconciliation is reviewed by an appropriate supervisor once it has been performed.

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Reportable Conditions Relating To Internal Control And Compliance: (Continued)

FINDING 99-CHS-7: The Department For Medicaid Services Should Improve The Controls Over Drug Rebate Billings, Collections, And Recording (Continued)

Management's Response and Corrective Action Plan

The Department agrees with the auditor's comments and has developed written procedures for the reconciliation of reports. Additionally, the Department is operating under a new contract with Unisys and has changed the monitoring techniques used. A Repot Card process is being put in place that puts emphasis on the Ad Hoc arena.

Response provided by: Dennis Boyd, Commissioner, Department for Medicaid Services

FINDING 99-CHS-8: The Cabinet For Health Services Should Improve Subrecipient Monitoring Procedures At The Department For Public Health

State Agency: Cabinet for Health Services
Federal Program: CFDA 93.994 - Maternal and Child Health Services Block Grant to the States
Federal Agency: U.S. Department of Health and Human Services
Pass-Through Entity: Not Applicable
Compliance Area: Subrecipient Monitoring
Amount of Questioned Costs: None

The FY 98 audit of CHS, Department for Public Health, disclosed a reportable condition relating to the lack of procedures in place for the monitoring of subrecipients, as required by OMB Circular A-133. During our audit of the Maternal and Child Health Services (MCHS) program and the Immunization program, we again noted that the monitoring of local/regional health departments (subrecipients) was unsatisfactory. The local health departments are required to have an audit performed annually. These audits were performed and most of these audits had been completed by February 2, 2000. A desk review of these audits was not performed as of the same date.

In the agency's response to our audit finding for FY 98, CHS indicated that local health department audits had always and would continue to be reviewed using the "Desk Review Guide for Single Audit Reports." Because of an internal reorganization of the local Fiscal Management staff, in which duties and responsibilities of staff has been shifted, a situation was created in which those audit reviews had not been performed. In addition, the agency agreed with the audit recommendations that those reviews should be completed to ensure audit requirements are met, corrective action taken, and reviews of the audit reports are documented and performed in a timely manner. However, there have not been any continuing efforts to review the audits. The audits appear to have been logged in by CHS, yet they did not use these reports to verify the monitoring.

Therefore, based on the results of our audit for FY 99, we conclude CHS has materially misrepresented its corrective action plan.

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Reportable Conditions Relating To Internal Control And Compliance: (Continued)

FINDING 99-CHS-8: The Cabinet For Health Services Should Improve Subrecipient Monitoring Procedures At The Department For Public Health (Continued)

CHS, and their subsequent federal programs, cannot be assured that their subrecipients are conducting their financial operations in accordance with federal requirements.

The Federal Attachment A, Single Audit Act Amendments of 1996, Subpart D, section 400, (d) (3-6) and the Department for Public Health, Division of Financial Resource Management, Audit Review Procedures, require pass-through entities monitor the activities of subrecipients, ensure audit requirements are met, and take appropriate and timely corrective action. In addition, local health departments obtain an audit and the Financial Management Branch should review these audits.

Recommendation

We recommend the current financial audit reports for the local and regional health departments receive a timely review and the results of these reviews be communicated to all grant administrators.

Management's Response and Corrective Action Plan

At the time of the APA audit, the audit reports submitted to the Department of Public Health (DPH) by the Local Health Departments (LHDs) had not been reviewed due to the staff shortages and other priorities. The Department agrees that the timely review of audit reports and dissemination of information to appropriate program administrators is necessary to good administration of our programs. Staff are currently being trained to use the "Desk Review Guide for Single Audit Reports" as the appropriate tool for use in reviewing audit reports submitted by LHDs, and will endeavor to make timely reviews a top priority.

Response provided by: Rice C. Leach, M.D. Commissioner Department for Public Health

Auditor's Reply

The agency should make a serious effort in completing the review of the local health department audits. Currently, the agency is two fiscal years behind in completing these reviews. We believe this could have an effect on the funding of various federal programs, since CHS is required by OMB Circular A-133 to monitor subrecipient activities.

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Other Matter Comments Relating To Internal Control And Compliance:

FINDING 99-CHS-9: The Department For Medicaid Services Should Comply With The Interagency Agreement With The Office Of Inspector General

During the auditor's review for ICF/MR/DD and SNF Swingbeds Quarterly Reviews, weaknesses were noted in this area. The auditor randomly selected FY 99 4th Quarter to review to document the Providers that Licensing and Regulation (L&R) has submitted Monitoring Forms for to the Department for Medicaid Services (DMS) and the number of Recipients/Patients L&R has reviewed for that particular Provider. Once this was documented, this total was verified to the Quarterly Monitoring Summary Form contained by DMS. In addition to this testing, it was also determined if quarterly onsite reviews by L&R was performed in a timely manner and if Monitoring Forms were submitted to DMS in accordance with the Interagency Agreement between DMS and L&R.

It was noted that for 22 Providers on the list that L&R provides DMS letting them know what onsite reviews will be performed each quarter, no Monitoring Forms were submitted to DMS by L&R. For 16 Providers, the onsite review performed by L&R was not performed in a timely manner. This means that L&R did not perform their onsite review in the month which they indicated per a letter submitted to DMS by the first of the month prior to the review quarter. Lastly, for 22, the Monitoring Forms were not submitted to DMS in accordance with the Interagency Agreement.

When the review was performed of the Quarterly Monitoring Summary Form contained by DMS, it was noted that there was not an additional signature on the form indicating that an additional review by a DMS employee, to verify the PRO determination was complete, was not being performed.

If Licensing and Regulation do not perform onsite reviews, an independent Level of Care determination cannot be made. Therefore, the Department for Medicaid Service's responsibility for Level of Care determinations and utilization control activities in ICF/MR/DD's and NF's cannot be fulfilled.

Per the Interagency Agreement between the DMS and the Office of Inspector General (OIG), Division of Licensing and Regulation (L&R) entered on the July 1, 1999, L&R "shall make an independent level of care determination for each recipient whose file is reviewed and shall forward its findings to the First Party (DMS) within 30 calendar days after the last day of the onsite review." Thus, L&R is responsible for forwarding the Monitoring Forms to DMS within 30 days after the last day of the onsite review.

Per the Interagency Agreement between DMS and OIG (L&R), L&R "will provide the First Party (DMS) the names of the NF's and ICF/MR/DD's scheduled to be reviewed in the following quarter by the first of the month prior to the beginning of that review quarter."

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Other Matter Comments Relating To Internal Control And Compliance: (Continued)

FINDING 99-CHS-9: The Department For Medicaid Services Should Comply With The Interagency Agreement With The Office Of Inspector General (Continued)

Per the Long Term Care – Quality Assurance Narrative, which was updated by DMS personnel for FY 99, states that "Medicaid keeps a running report (Quarterly Monitoring Summary Form) as the forms from L&R come in and are reviewed. The report is completed when a minimum of 90% of the sample has been returned. A Medicaid staff member signs the report and another employee signs it to verify it has been completed."

Recommendation

We recommend that:

- Onsite reviews performed by Licensing and Regulation (L&R) be performed in a timely manner.
- All scheduled onsite reviews by L&R should be performed and within the month scheduled.
- Monitoring Forms be submitted to the Department of Medicaid Services (DMS) within 30 days of the last day of the onsite review in order to be in compliance with the Interagency Agreement.
- The Quarterly Monitoring Summary Form should be reviewed by two people to verify its completeness.

Management's Response and Corrective Action Plan

The Department for Medicaid Services staff will be working more closely with the Office of the Inspector General's staff to monitor the Interagency Agreement. The procedure steps have been outlined on the attached forms for your review. Melvin Lewis in the Division of Long Term Care has been assigned as the DMS contact person. Corrective action steps were taken effective February 3, 2000.

Response provided by: Dennis Boyd, Commissioner, Department for Medicaid Services

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Other Matter Comments Relating To Internal Control And Compliance: (Continued)

FINDING 99-CHS-10: Internal Control Over In-State Hospitals Should Be Strengthened To Insure Compliance With Regulations

During the testing of internal controls and compliance of In-State Hospitals for determining whether hospitals had been adequately surveyed and recertified, we found that 3 out of 23 JCAH accredited In-State Hospitals were not surveyed within 36 months of the previous survey. In addition, we found that two out of two unaccredited In-State Hospitals were not surveyed within 12 months of the previous survey.

In-State Hospitals could be ineligible because they are not surveyed and recertified. 42 CFR 488.5 states that JCAH accredited hospitals should be surveyed within 36 months of the previous survey to remain certified and those unaccredited hospitals should be surveyed within 12 months of the previous survey.

Recommendation

We recommend that surveys be conducted within the appropriate time periods in order to be recertified and eligible to participate in Medicaid.

Management's Response and Corrective Action Plan

The Division of Licensing and Regulation in the Office of the Inspector General is responsible for conducting surveys on in-state hospitals. The Department for Medicaid Services is in the process of developing a report of hospitals needed recertification, which will be forwarded to the Division of Licensing and Regulation. The Department will continue to work with the OIG to monitor and improve the recertification process.

Response provided by: Dennis Boyd, Commissioner, Department for Medicaid Services

FINDING 99-CHS-11: Internal Controls Over The Managed Care Program Should Be Improved

During the testing of internal controls and compliance of the Managed Care Program's Complaint/Grievance Call Log System, we found that 15 out of 25 calls selected for testing did not contain the date the complaint was logged into the system. Two out of the 25 calls did not contain the members Social Security Number.

The complaint/grievance system cannot be used to its full potential by agency personnel unless all data is entered into the system when a call comes into the agency.

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Other Matter Comments Relating To Internal Control And Compliance: (Continued)

FINDING 99-CHS-11: Internal Controls Over The Managed Care Program Should Be Improved (Continued)

A government entity needs an internal control structure which provides controls to ensure compliance with laws and regulations, safeguards its assets, checks the accuracy and reliability of its accounting data, and promotes operational efficiency. A good internal control structure is essential for the achievement of full accountability, which is a primary issue in today's government.

Recommendation

We recommend that data be entered into all the data fields of the Complaint/Grievance Call Log System. This will ensure agency personnel have all relevant data to make determinations on how to resolve a complaint/grievance.

Management's Response And Corrective Action Plan

DMS concurs that more data needs to be captured in the Medicaid Quality Tracking system and expects to implement an improved system in May 2000. The revised system will have several required fields (e.g., county of residence, managed care vs. fee-for-service, complaint/grievance codes, resolution code, log-in and resolution dates, etc) . Although staff will not be able to exit system without entering data in the required fields, there will be optional fields that may or may not contain data. DMS policy does not require a social security number to accompany complaint data entries. Although the revised system will ask for this as a data field, DMS staff can opt out of that data field requirement if a member requests anonymity. DMS does not view this as a system weakness but as a system designed to protect a member's right to anonymity and confidentiality. Note: Caller will be asked for all data but only several data fields are required. .

Response provided by: Dennis Boyd, Commissioner, Department for Medicaid Services

FINDING 99-CHS-12: The Department For Medicaid Services Should Strengthen Controls Over Supplementary Medical Insurance Bills

During the Auditor's review of Supplementary Medical Insurance Bills to determine if procedures were in place and operating properly, the auditor discovered that agency personnel failed to reconcile agency level reports to Unisys reports. In the initial interview with agency personnel, an employee stated that the reconciliation of agency reports to Unisys reports was not performed. The employee also stated that they had not received adequate training on how to reconcile these reports. Thus, the Unisys reports were stored in a file drawer without review.

CABINET FOR HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Other Matter Comments Relating To Internal Control And/Or Compliance (Continued)

FINDING 99-CHS-12: The Department For Medicaid Services Should Strengthen Controls Over Supplementary Medical Insurance Bills (Continued)

If agency personnel fail to reconcile their reports with Unisys reports, errors and material differences could exist and go undetected. Failure to monitor these accounts could jeopardize the program and future funding.

A government entity needs an internal control structure which provides controls to ensure compliance with laws and regulations, safeguards its assets, checks the accuracy and reliability of its accounting data, and promotes operational efficiency. A good internal control structure is essential for the achievement of full accountability, which is the primary issue in today's government

Recommendation

We recommend that:

- reconciliation of Unisys reports be performed in a timely manner;
- the reconciliation is reviewed by appropriate supervising personnel to verify completeness;
- adequate training be provided to new employees; and
- supervisors monitor new employees until proper training has been given.

Management's Response and Corrective Action Plan

The reconciliation process for the monthly HCFA Summary Accounting Statements, Billing Notice of Hospital Insurance Premiums and Supplementary Medical Insurance Premiums figures are compared to the Unisys Parts A & B Buy-in and the Transaction Code Financial Summary Reports.

Ms. Bertha Story, who coordinates the functions of the Eligibility area of the Customer Services Branch is now the individual responsible for performing the reconciliation process of the Medical Insurance Payment reports, forwarding the results of the reconciliation to the Medicaid Division of Financial Systems and acting as recordkeeper for these reports.

Response provided by: Dennis Boyd, Commissioner, Department for Medicaid Services

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

CABINET FOR HEALTH SERVICES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
Reportable Conditions					
(1) Audit Findings that have been fully corrected:					
FY 97	97-CHS-46	The Department For Medicaid Services Should Ensure That The State Worker's Compensation Data Exchange Occurs Between The Labor Cabinet And The Department For Medicaid Services	N/A	0	Resolved for FY 99.
2) Audit Findings not corrected or partially corrected:					
FY 98	98-CHS-5	Subrecipient Monitoring Procedures At The Division Of State And Local Health Departments Should Be Improved	N/A	0	No review of local health departments has been performed by the agency as of 6-30-99. See finding 99-CHS-8.
FY 98	98-CHS-6	The Department of Public Health Should Develop Written Policies And Procedures For Significant Areas Of The Immunization Program	N/A	0	A program administrator was hired and is currently working on developing a written policies and procedures manual.
FY 97	97-CHS-44	The Department For Medicaid Services Should Improve The Controls Over Drug Rebate Billings, Collections, And Recording	N/A	0	The agency is in the process of implementing our recommendations. However, other findings were noted in our testing. See finding 99-CHS-7.
FY 97	97-CHS-47	The Finance And Administration Cabinet And The Cabinet For Health Services Should Develop Procedures To Ensure Vendors Providing Services To Federal Programs Are Not Debarred Or Suspended By The Federal Government	N/A	0	MARS will have the capability to identify debarred/suspended vendors. The agency will implement this finding July 1, 1999 when MARS is implemented.

CABINET FOR HEALTH SERVICES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
Reportable Conditions (Continued)					
2) Audit Findings not corrected or partially corrected (Continued)					
FY 97	97-CHS-48	The Division Of Substance Abuse Should Adhere To Established Internal Control Procedures	N/A	0	A log is now maintained of all progress reports. No procedure has been implemented to send reminder notices for delinquent reports.
FY 97	97-CHS-49	The Department For Public Health Should Develop A complete Information System Security Policy	N/A	0	Some corrective action has been taken although not enough to downgrade the comment to Other Matter.
FY 96	N/A	The Department For Medicaid Services Should Improve Internal Controls Relating To The Alternative Intermediate Care/Mental Retardation Waiver	N/A	120,760	The agency implemented our corrective action plan for FY 97. However, the questioned costs has not been resolved.

(3) ***Corrective action taken is significantly different from corrective action previously reported*****:**

No findings for this section.

4) ***Audit finding is no longer valid***:

No findings for this section.

CABINET FOR HEALTH SERVICES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
Material Weaknesses/Noncompliances					
(1) Audit Findings that have been fully corrected:					
FY 97	97-CHS-54	The Department For Medicaid Services Should Develop Controls To Monitor The Third Party Liability Function Performed By The Fiscal Agent	N/A	0	Our audit showed this comment was resolved for FY 99.
2) Audit Findings not corrected or partially corrected:					
FY 98	98-CHS-7	The Department Of Public Health Should Strengthen Controls Over The Vaccine Inventory System	N/A	0	Progress has been made by the agency to improve their inventory system.
FY 98	98-CHS-DP11	Custom Data Processing, Inc. Should Update All Systems To Be Year 2000 Compliant	N/A	0	Progress was made with this area. The comment has been downgraded to Other Matter for FY 99.
FY 97 FY 98	97-CHS-55	The Department For Medicaid Services Should Establish Procedures To Ensure That Pharmacy Provider Information Is Accurate And Current In The Medicaid Management Information System	N/A	184,633 302,180	The FY 97 and FY 98 questioned costs totaling $486,813 have been resolved. Monthly reports should be obtained from the KY Board of Pharmacy. This comment has been downgraded to an Other Matter.

(3) ***Corrective action taken is significantly different from corrective action previously reported*****:**

No findings for this section.

4) ***Audit finding is no longer valid***:

No findings for this section.

CABINET FOR HEALTH SERVICES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
Other Matters					
(1) Audit Findings that have been fully corrected:					
FY 98	98-CHS-11	The Hospital And Psychiatric Facilities Branch Should Monitor Length Of Stay In Hospitals And Psychiatric Hospitals In Accordance With Federal Regulations	N/A	0	Our audit showed this comment was resolved for FY 99.
FY 98	98-CHS-12	The Department For Mental Health/Mental Retardation Service Should Strengthen Internal Controls And File Maintenance Procedures Within The SCL Waiver Program	N/A	0	Our audit showed this comment was resolved for FY 99.
FY 98	98-CHS-13	The Department For Medicaid Services Should Strengthen Controls Over The Support For Community Living Waiver	N/A	0	Our audit showed this comment was resolved for FY 99.
FY 98	98-CHS-16	The Department For Medicaid Services Should Strengthen Controls Over Monitoring The Home And Community Based Waiver	N/A	0	Our audit showed this comment was resolved for FY 99.
FY 98	98-CHS-17	The Department For Mental Health/Mental Retardation Services Should Create A Written Policy And Procedure Manual Including Statistical Valid Sampling Procedures For On-Site Reviews Of The Supports For Community Living Waiver	N/A	0	Our audit showed this comment was resolved for FY 99.
FY 98	98-CHS-19	The Department For Medicaid Services Should Implement A System To Generate Random Selection Of Edit Check Denied Claims In The Medicaid Management Information System	N/A	0	Our audit showed this comment was resolved for FY 99.

CABINET FOR HEALTH SERVICES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
Other Matters (Continued)					
(1) Audit Findings that have been fully corrected: (Continued)					
FY 98	98-CHS-21	The Commission For Children With Special Health Care Needs Should Adhere To Established Internal Control Procedures	N/A	0	Our audit showed this comment was resolved for FY 99.
2) Audit Findings not corrected or partially corrected :					
FY 98	98-CHS-1	The Cabinet For Health Services Should Improve Controls Over Personnel and Payroll Functions	N/A	0	Controls have been improved in payroll and personnel however; another finding was noted in this area in our FY 99 audit. See other matter comment 99-CHS-6.
FY 98	98-CHS-2	The Cabinet For Health Services Should Improve Control Procedures Over The Medical Assistance Program	N/A	0	No improvement was made to this comment during FY 99. The status of this comment has changed from an other matter to a reportable condition. See 99-CHS-3.
FY 98	98-CHS-3	The Cabinet For Health Services Should Strengthen Controls Over The Kentucky Health Care Program	N/A	0	Improvement has been made in supporting documentation for DSH payments. However, other problems were noted with DSH payments in FY 99. See reportable condition 99-CHS-4.

CABINET FOR HEALTH SERVICES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
***Other Matters* (Continued)**					
2) Audit Findings not corrected or partially corrected: (Continued)					
FY 98	98-CHS-4	The Cabinet For Health Services Should Improve Controls Over Providers	N/A	0	The agency is in the process of implementing a corrective action plan. The FY 99 audit disclosed other problems with provider files. See 99-CHS-5.
FY 98	98-CHS-8	The Department Of Public Health Should Improve Controls Over The Bank Reconciliation Process	N/A	0	Our recommendations are being implemented July 1, 1999.
FY 98	98-CHS-9	The Department Of Public Health Should Close Its County Health Central Bank Account.	N/A	0	The DPH staff and the fiscal staff are working toward a total closure of the account effective July 1, 2000.
FY 98	98-CHS-10	The Department For Medicaid Services Should Improve Controls Over Nursing Facilities To Comply With Regulations	N/A	0	No improvement has been made in re-certifying SNF and NF facilities. Medicaid staff is working with the OIG office to monitor and improve the re-certification process.
FY 98	98-CHS-14	The Department For Medicaid Services Should Strengthen Controls Over The Home And Community Based Waiver	N/A	0	Four of the six findings noted in the FY 98 audit have been cleared. The FY 99 audit showed that problems still exist in the other two areas.

CABINET FOR HEALTH SERVICES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
***Other Matters* (Continued)**					
2) Audit Findings not corrected or partially corrected (Continued)					
FY 98	98-CHS-15	The Department For Medicaid Services Should Improve Record Keeping And Monitoring Of HCFA-1539 Form Certifications	N/A	0	Agency staff is working with the Licensure and Regulation Division to resolve this issue.
FY 98	98-CHS-18	The Department For Medicaid Services Should Ensure That Ad Hoc Reports From Unisys Are Timely And Accurate	N/A	0	No improvement has been made in this area by the agency for FY 99.
FY 98	98-CHS-20	The Department For Public Health Should Develop A Formal Disaster Recovery Plan	N/A	0	Little improvement has been made on the disaster recovery plan for FY 99.
FY 98	98-CHS-22	The Department Of Public Health Should Improve Controls Over The Special Supplemental Nutrition Program For Women, Infants, And Children	N/A	0	The agency is in the process of implementing our recommendations.

(3) ***Corrective action taken is significantly different from corrective action previously reported*:**

No findings for this section.

4) ***Audit finding is no longer valid***:

No findings for this section.